***Overview***

1. The current intercarrier compensation regime – its basis and how it works.
2. Compensation from this process is essential to the continued provision of service at reasonable and affordable rates and the ability to provide new services and technologies to consumers. This regime:
    - Encourages economic efficiency
    - Encourages investment in interconnected networks and encourages broadband investment.
    - Encourages the efficient development of market-based competition.
    - Minimizes regulatory intervention.
3. Bill-and-keep will harm consumers and may cause market failures:
    - Consumer harm – significant increase in rates ($60 to $85 per loop per month) or inability of ILEC to provide service at all; deteriorating quality of service; declining investment in new technologies.
    - Competitive harm – market distortion – competitors do not have to face costs of service and rather that serve all consumers there will simply be an inefficient incentive to focus on the originating market segment and leave terminating market segment; consumers inappropriately subsidize competitive entry and competitive services.
    - Harm to ILEC network provider – Significant loss of revenue that may not be recoverable; Pressure to add new originating facilities, the costs of which may not be recoverable; No ability to recover transiting costs, etc.
4. CMRS Interconnection:
    - Background – defacto and inappropriate bill-and-keep; access provider equal access obligations; Commission requirements for this traffic.
    - Consequences of revising the jurisdiction of the originating IXC traffic – (a) IXCs lose revenues and traffic and have even less incentive to serve rural markets; (b) ILECs must raise customer rates to recover lost access and recover new terminating costs; (c) CMRS providers gain an inappropriate competitive advantage over IXCs, etc.

- Virtual NPA-NXX - Arrangements are inappropriate because, (a) they are uneconomic toll bypass, (b) incorrectly cause interstate or intrastate traffic to be classified as local, (c) require End users to inappropriately subsidize competitive services of CMRS providers and CLECs, (d) gain an anti-competitive advantage and (e) misuse the LERG.

5. Recommendations:
    - Continue and support the current “unified” intercarrier compensation regime and do not adopt bill-and-keep for all traffic.
    - Clarify that (a) rural ILECs are not required to treat intraMTA IXC presubscribed traffic as local ILEC originated traffic, (b) compensation is appropriate when an imbalance of traffic has been demonstrated and (c) that virtual NPA-NXX arrangements are not allowable.
    - Rural ILEC interconnection rates must be based on their costs, not forward-looking costs. Competitors should be required to base their rates for rural ILEC interconnection on either their costs or forward looking costs, capped at the rural ILEC level.
    - Avoid further regulatory imposed access rate reductions for rural ILECs.